

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA  
KEOSAUQUA, IOWA

INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2004

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

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KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

OFFICIALS  
JUNE 30, 2004

| <u>NAME</u>    | <u>TITLE</u> | <u>TERM EXPIRES</u> |
|----------------|--------------|---------------------|
| George Manning | Member       | December 31, 2008   |
| Les Betts      | Member       | December 31, 2004   |
| Ross Boyd      | Chairman     | December 31, 2006   |

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Keosauqua Municipal Light and Power  
A Component Unit of the City of Keosauqua  
Keosauqua, Iowa

We have audited the accompanying financial statements of Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa, as of and for the year ended June 30, 2004. These financial statements are the responsibility of Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa as of June 30, 2004, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9, during the year ended June 30, 2004, Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

In accordance with Government Auditing Standards, we have also issued our report dated September 3, 2004 on our consideration of the Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
September 3, 2004

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Keosauqua Municipal Light and Power provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### **FINANCIAL HIGHLIGHTS**

The Utility's operating revenues increased 5% or \$44,951, from fiscal year 2003 to fiscal year 2004. Increases in revenue from the sale of electricity accounted for the majority of this increase.

The Utility's operating expenses increased 12% or \$99,120, from fiscal year 2003 to fiscal year 2004. This increase included a \$50,000 contribution to the City of Keosauqua, \$18,177 increase in the purchase of electricity, \$8,656 increase in salaries, payroll taxes and employee benefits, and \$7,504 increase in line maintenance expenses.

The Utility's net assets increased 3% or \$62,819, from fiscal year 2003 to fiscal year 2004.

### **USING THIS ANNUAL REPORT**

Keosauqua Municipal Light and Power is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to Keosauqua Municipal Light and Power's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Statement of Net Assets presents information on the Utility's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

### **FINANCIAL ANALYSIS OF THE UTILITY**

#### **Statement of Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of the Utility's financial position. The Utility's net assets for fiscal year 2004 total approximately \$2,199,000. This compares to approximately \$2,136,000 for fiscal year 2003. A summary of the Utility's net assets as of June 30, 2004 and 2003 is presented below.

## NET ASSETS

|   | <u>2004</u>         | <u>June 30,</u><br><u>2003</u> |
|---|---------------------|--------------------------------|
| Current assets  | \$ 1,362,626        | \$ 1,387,833                   |
| Capital assets at cost, less accumulated depreciation | 834,261             | 739,724                        |
| Other assets  | <u>75,240</u>       | <u>73,762</u>                  |
| Total assets  | 2,272,127           | 2,201,319                      |
| Current liabilities                                   | <u>73,468</u>       | <u>65,479</u>                  |
| Net assets: Unrestricted                              | \$ <u>2,198,659</u> | \$ <u>2,135,840</u>            |

100% of the Utility's net assets are unrestricted and can be used to meet the Utility's obligations as they come due.

### **Statements of Revenues, Expenses and Changes in Net Assets**

Operating revenues are received from the sale of electricity to the residents of the City of Keosauqua. Operating expenses are expenses paid to run the Utility. Non-operating revenues and expenses include interest income. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the years ended June 30, 2004 and 2003 is presented below:

## CHANGES IN NET ASSETS

|                                  | <u>2004</u>         | <u>Year Ended June 30,</u><br><u>2003</u> |
|----------------------------------|---------------------|---|
| Operating revenue:               |                     |   |
| Sale of electricity              | \$ 921,250          | \$ 880,438                                |
| Late payment charges             | 737                 | 1,359                                     |
| Miscellaneous income             | <u>30,199</u>       | <u>25,438</u>                             |
| Total operating revenue          | <u>952,186</u>      | <u>907,235</u>                            |
| Operating expenses:              |                     |   |
| Purchase of power                | 560,565             | 542,388                                   |
| Salaries                         | 83,614              | 80,133                                    |
| Payroll taxes                    | 6,412               | 6,063                                     |
| IPERS                            | 4,819               | 4,557                                     |
| Group insurance                  | 23,949              | 19,385                                    |
| Employee education               | 590                 | 375                                       |
| Line maintenance                 | 60,133              | 52,629                                    |
| Meter expense                    | 3,021               | 2,011                                     |
| Property and liability insurance | 8,182               | 6,212                                     |
| Truck expense                    | 3,461               | 3,428                                     |
| Utilities                        | 3,001               | 2,351                                     |
| Repairs and maintenance          | 1,584               | 425                                       |
| Bookkeeping                      | 11,968              | 13,135                                    |
| Legal and accounting             | 6,065               | 5,950                                     |
| Office supplies                  | 5,181               | 4,444                                     |
| Trustee fees                     | 372                 | 384                                       |
| Association dues and assessments | 7,423               | 4,665                                     |
| Miscellaneous                    | 7,134               | 2,485                                     |
| Community betterment expenses    | 50,270              | 1,570                                     |
| Depreciation                     | 52,285              | 48,346                                    |
| Energy efficiency                | <u>3,063</u>        | <u>3,036</u>                              |
| Total operating expenses         | <u>903,092</u>      | <u>803,972</u>                            |
| Operating income                 | 49,094              | 103,263                                   |
| Non-operating revenues:          |                     |   |
| Interest income                  | <u>13,725</u>       | <u>15,827</u>                             |
| Change in net assets             | 62,819              | 119,090                                   |
| Net assets – Beginning of year   | <u>2,135,840</u>    | <u>2,016,750</u>                          |
| Net assets -- End of year        | \$ <u>2,198,659</u> | \$ <u>2,135,840</u>                       |

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the fiscal year.

In fiscal year 2004, operating revenues increased 5% or \$44,951, primarily due to increase in the amount of electricity sold to customers. Operating expenses increased 12% or \$99,120. This increase included a \$50,000 contribution to the City of Keosauqua, \$18,177 increase in the purchase of electricity, \$8,656 increase in salaries, payroll taxes and employee benefits, and \$7,504 increase in line maintenance expenses.

### **Statement of Cash Flows**

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes the sale of electricity and other receipts reduced by payments to suppliers and employees. Cash used from capital and related financing activities includes the purchase of capital assets. Cash provided by investing activities includes interest income and the purchase of certificates of deposit.

### **CAPITAL ASSETS**

At June 30, 2004, the Utility had approximately \$834,000 invested in capital assets, net of accumulated depreciation of approximately \$637,000. Depreciation charges totaled \$52,285 for fiscal year 2004. More detailed information about the Utility's capital assets is presented in the Notes to Financial Statements.

### **ECONOMIC FACTORS**

Keosauqua Municipal Light and Power continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

The Utility's distribution system requires constant maintenance and upkeep.

Technology continues to expand and current technology becomes outdated presenting an on-going challenge to maintain up to date technology at a reasonable cost

The Utility anticipates the current fiscal year will be much like the last and we will maintain a close watch over resources to maintain our ability to react to unknown issues

### **CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Keosauqua Municipal Light and Power, P.O. Box 216, Keosauqua, Iowa

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

STATEMENT OF NET ASSETS

JUNE 30, 2004

ASSETS

CURRENT ASSETS:

|                           |                  |
|---------------------------|------------------|
| Cash and cash equivalents | \$ 1,058,659     |
| Certificates of deposit   | 208,015          |
| Accounts receivable       | 87,574           |
| Interest receivable       | 764              |
| Prepaid insurance         | <u>7,614</u>     |
| Total current assets      | <u>1,362,626</u> |

PROPERTY AND EQUIPMENT:

|                                      |                |
|--------------------------------------|----------------|
| Land                                 | 3,423          |
| Buildings                            | 72,714         |
| Distribution system                  | 1,240,849      |
| Equipment and vehicles               | <u>153,884</u> |
| Totals                               | 1,470,870      |
| Less accumulated depreciation        | <u>636,609</u> |
| Book value of property and equipment | <u>834,261</u> |

OTHER ASSETS:

|                         |               |
|-------------------------|---------------|
| Notes receivable        | 25,000        |
| Certificates of deposit | <u>50,240</u> |
| Total other assets      | <u>75,240</u> |

TOTAL ASSETS 2,272,127

CURRENT LIABILITIES:

|                         |              |
|-------------------------|--------------|
| Accounts payable        | 60,636       |
| Accrued sales tax       | 2,187        |
| Customer meter deposits | 6,260        |
| Compensated absences    | <u>4,385</u> |

TOTAL LIABILITIES 73,468

NET ASSETS - UNRESTRICTED

\$ 2,198,659



KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2004

OPERATING REVENUE:

|                         |                |
|-------------------------|----------------|
| Sale of electricity     | \$ 921,250     |
| Late payment charges    | 737            |
| Miscellaneous income    | <u>30,199</u>  |
| Total operating revenue | <u>952,186</u> |

EXPENSES:

|                                  |                |
|----------------------------------|----------------|
| Purchase of power                | 560,565        |
| Salaries                         | 83,614         |
| Payroll taxes                    | 6,412          |
| IPERS                            | 4,819          |
| Group insurance                  | 23,949         |
| Employee education               | 590            |
| Line maintenance                 | 60,133         |
| Meter expense                    | 3,021          |
| Property and liability insurance | 8,182          |
| Truck expenses                   | 3,461          |
| Utilities                        | 3,001          |
| Repairs and maintenance          | 1,584          |
| Bookkeeping                      | 11,968         |
| Legal and accounting             | 6,065          |
| Office supplies                  | 5,181          |
| Trustee fees                     | 372            |
| Association dues and assessments | 7,423          |
| Miscellaneous                    | 7,134          |
| Community betterment expenses    | 50,270         |
| Depreciation                     | 52,285         |
| Energy efficiency                | <u>3,063</u>   |
| Total operating expenses         | <u>903,092</u> |

OPERATING INCOME 49,094

NONOPERATING REVENUE:

|                 |               |
|-----------------|---------------|
| Interest income | <u>13,725</u> |
|-----------------|---------------|

CHANGE IN NET ASSETS 62,819

NET ASSETS - BEGINNING OF YEAR 2,135,840

NET ASSETS - END OF YEAR \$ 2,198,659

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

|   |               |
|---|---------------|
| Cash received from customers                  | \$ 912,973    |
| Cash received from other operating receipts   | 30,199        |
| Cash paid to suppliers for goods and services | (762,033)     |
| Cash paid to employees for services           | (83,813)      |
| NET CASH PROVIDED BY OPERATING ACTIVITIES     | <u>97,326</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

|                                    |                  |
|------------------------------------|------------------|
| Purchase of property and equipment | <u>(146,822)</u> |
|------------------------------------|------------------|

CASH FLOWS FROM INVESTING ACTIVITIES:

|   |              |
|---|--------------|
| Interest on investments                   | 13,725       |
| Purchase of certificates of deposit       | (5,693)      |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>8,032</u> |

NET DECREASE IN CASH AND CASH EQUIVALENTS (41,464)

CASH AND CASH EQUIVALENTS - Beginning of year 1,100,123

CASH AND CASH EQUIVALENTS - End of year \$ 1,058,659

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDEDBY OPERATING ACTIVITIES:

|  |                  |
|--|------------------|
| Operating income   | \$ <u>49,094</u> |
| Adjustments to reconcile operating income to net cash provided<br>by operating activities: |                  |
| Depreciation   | 52,285           |
| Change in assets and liabilities:  |                  |
| Increase in accounts receivable  | (9,014)          |
| Decrease in interest receivable  | 186              |
| Increase in prepaid insurance  | (3,214)          |
| Increase in accounts payable   | 7,356            |
| Increase in accrued sales tax  | 28               |
| Increase in customer meter deposits  | 804              |
| Decrease in compensated absences   | (199)            |
| Total adjustments  | <u>48,232</u>    |
| NET CASH PROVIDED BY OPERATING ACTIVITIES  | \$ <u>97,326</u> |

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Keosauqua Municipal Light and Power is an electrical utility plant located in the City of Keosauqua, Iowa. The Utility purchases all of its power from the Southern Iowa Electric Co-op. It sells its services to the citizens, businesses and the City of Keosauqua, Iowa.

The financial statements of the Utility are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Keosauqua Municipal Light and Power has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. Keosauqua Municipal Light and Power has no component units which meet the Governmental Accounting Standards Board criteria.

Keosauqua Municipal Light and Power is presented as a Component Unit in the City of Keosauqua's financial statements. The Utility is a legally separate entity from the City, but is financially accountable to the City. The Utility is governed by a three-member Board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Basis of Presentation

The accounts of Keosauqua Municipal Light and Power are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Investments

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents – The Utility considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than six months. Cash investments not meeting the definition of cash equivalents at June 30, 2004 include certificates of deposit of \$258,255.

Accounts Receivable - Keosauqua Municipal Light and Power grants credit to customers, substantially all of whom are located in Keosauqua, Iowa. The risk of loss on the accounts receivable is the balance due at the time of default. Accounts receivable are considered past due after 30 days and are charged off when management determines the account is uncollectible. Bad debts are charged to operations in the year in which the account is determined uncollectible. If the reserve method of accounting for uncollectible accounts was used, it would not have a material effect on the financial statements.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Utility as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of one year.

| <u>Asset Class</u>     | <u>Amount</u> |
|------------------------|---------------|
| Buildings              | \$ 1,000      |
| Distribution system    | 500           |
| Equipment and vehicles | 500           |

Capital assets of the Utility are depreciated using the straight line method over the following estimated useful lives:

| <u>Asset Class</u>     | <u>Estimated<br/>Useful lives<br/>(In years)</u> |
|------------------------|--|
| Buildings              | 15-25  |
| Distribution system    | 30-40  |
| Equipment and vehicles | 5-10   |

Compensated Absences – Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at June 30, 2004.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

Keosauqua Municipal Light and Power's deposits in banks at June 30, 2004, were entirely covered by federal depository insurance or by the State Sinking Fund, in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Municipal Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Municipal Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-ended management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility's investments are categorized to give an indication of the level of risk assumed by the Utility at year end. The Utility's investments are all category 1, which means that the investments are insured or registered or the securities are held by the Utility or its agent in the Utility's name.

The Utility's investments at June 30, 2004 are as follows:

Certificates of deposit:

|  |                  |
|--|------------------|
| Original maturity 6 to 12 months         | \$208,015        |
| Original maturity greater than 12 months | <u>50,240</u>    |
|  | <u>\$258,255</u> |

The investments are recorded at cost which approximates fair value.

NOTE 3 – PROPERTY AND EQUIPMENT

The following is a summary of fixed assets by amounts for the major classifications of property and equipment for the year ended June 30, 2004:

|                               | <u>Balance</u><br><u>June 30, 2003</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u><br><u>June 30, 2004</u> |
|-------------------------------|--|------------------|------------------|--|
| Land                          | \$ 3,423                               | \$ -             | \$ -             | \$ 3,423                               |
| Buildings                     | 72,714                                 | -                | -                | 72,714                                 |
| Distribution system           | 1,094,027                              | 146,822          | -                | 1,240,849                              |
| Equipment and vehicles        | <u>153,884</u>                         | <u>-</u>         | <u>-</u>         | <u>153,884</u>                         |
| Subtotal                      | 1,324,048                              | 146,822          | -                | 1,470,870                              |
| Less accumulated depreciation | <u>(584,324)</u>                       | <u>(52,285)</u>  | <u>-</u>         | <u>(636,609)</u>                       |
| Total                         | <u>\$ 739,724</u>                      | <u>\$ 94,537</u> | <u>\$ -</u>      | <u>\$ 834,261</u>                      |

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – PROPERTY AND EQUIPMENT (Continued)

The following is a schedule of depreciation expense for the year ended June 30, 2004.

|                        |                 |
|------------------------|-----------------|
| Buildings              | \$ 1,736        |
| Distribution system    | 35,448          |
| Equipment and vehicles | <u>15,101</u>   |
| Total                  | <u>\$52,285</u> |

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The Municipal Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Municipal Utility is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$4,819, \$4,557 and \$4,386 respectively, equal to the required contributions for each year.

NOTE 5 – RELATED PARTY TRANSACTIONS

The Utility sells electricity to and purchases bookkeeping services and water from the City of Keosauqua. The following is a summary of the transactions and balances for the year ended June 30, 2004:

|  |          |
|--|----------|
| Electricity paid by the City of Keosauqua to the Utility         | \$ 5,907 |
| Accounts receivable from the City of Keosauqua                   | 313      |
| Bookkeeping expense paid by the Utility to the City of Keosauqua | 11,968   |
| Water fees paid by the Utility to the City of Keosauqua          | 2,151    |
| Accounts payable due to the City of Keosauqua                    | 822      |

NOTE 6 – RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Utility assumes liability for any deductibles and claims in excess of coverage limitations.

NOTE 7 – MAJOR CUSTOMERS

Sales to two major customers were \$213,628 for the year ended June 30, 2004, representing 23% of the total sales for the year. At June 30, 2004, amounts due from these customers included in trade accounts receivable were \$19,233.

NOTE 8 – MAJOR SUPPLIERS

For the year ended June 30, 2004, the Utility purchased power from one supplier totaling \$560,565.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – ACCOUNTING CHANGE

For the year ended June 30, 2004, the Utility implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

Implementation of these statements had no effect on the beginning balances of the Utility.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Trustees  
Keosauqua Municipal Light and Power  
A Component Unit of the City of Keosauqua  
Keosauqua, Iowa

We have audited the financial statements of Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Utility's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Utility and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO P C

Ottumwa, Iowa  
September 3, 2004



KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA

SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were noted.

Reportable Conditions:

I-A-04 Segregation of Duties - One important aspect of the internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - This is a continuing problem for us, but an entity the size of our Utility does not have the finances to segregate the duties as recommended. The Board of Trustees will continue to monitor operations on a monthly basis.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories has been approved by the Utility. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Questionable Disbursements - No expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-04 Travel Expense - No expenditures of money for travel expenses of spouses of Utility officials or employees were noted.

II-D-04 Business Transactions - No business transactions between the Utility and Utility officials or employees were noted.

II-E-04 Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-04 Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.

II-G-04 Deposits and Investments - No instances of noncompliance with the deposits and investments provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.